

CITY OF LEAD

AUDIT REPORT

DECEMBER 31, 2009

**CITY OF LEAD  
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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Commission  
City of Lead  
Lead, South Dakota

I was engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lead, South Dakota as of December 31, 2009, and for the year then ended which comprise the City's basic financial statements, and have issued my report thereon dated June 18, 2010, which was a disclaimer of opinion due to inadequate capital asset records and failure to report interfund services provided.

As required by the applicable Standards contained in Government Auditing Standards, issued by the Comptroller General of the United States, I am providing my report on internal control and compliance.

### Internal Control over Financial Reporting

As required by those Standards, I considered the City of Lead's internal control over financial reporting but not to the extent necessary to enable me to express, and I do not express, an opinion on the effectiveness of the City of Lead's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses to the extent necessary to enable me to express, and have been identified. However, as described in the accompanying Schedule of Current Audit Findings, I identified certain deficiencies in internal control over financial reporting that I considered to be material weaknesses.

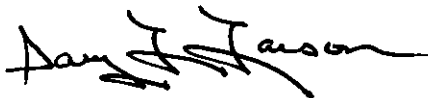
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Current Audit Findings to be material weaknesses. See findings number 2009-01 and 2009-03.

#### Compliance and Other Matters

Also, in accordance with Standards referred to above, I performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not my objective, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance and other matters that are required to be reported under Government Auditing Standards. See the accompanying Schedule of Current Audit Finding, finding number 2009-02.

City of Lead's response to the findings identified in my audit is described in the accompanying schedule of current audit findings. I did not audit City of Lead's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the governing board and information of the management of the City of Lead and the South Dakota Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11 this report is a matter of public record and its distribution is not limited.



June 18, 2010

# Gary L. Larson, CPA

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900 Winchester Drive  
Pierre, SD 57501  
(605) 940-1284

## INDEPENDENT AUDITOR'S REPORT

City Commission  
City of Lead  
Lead, South Dakota

I was engaged to audit the accompanying financial statements of the governmental activities, the business-type activities and each major fund and the aggregate remaining fund information of the City of Lead, South Dakota, as of December 31, 2009, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lead's management.

Evidence supporting the cost or estimated cost and related accumulated depreciation of capital assets was inadequate. The City's records do not permit the application of adequate alternative procedures regarding the cost of capital assets, accumulated depreciation and depreciation expense.

Land beneath the buildings of the business-type activities has not been assigned a value.

The City failed to report interfund services for the year 2009.

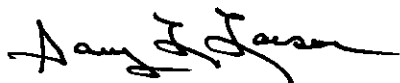
Since the City did not maintain adequate capital asset or interfund services records during 2009 and I was not able to apply other auditing procedures to satisfy myself as to the reported net assets and activities of the City, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on these financial statements.

In accordance with the Government Auditing Standards, I have also issued my report dated June 18, 2010 on my consideration of the City of Lead's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance

and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The budgetary comparison information on pages 54 through 58 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

The City has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, appearing to read "Amy J. Larson". The signature is fluid and cursive, with a long horizontal stroke at the end.

June 18, 2010

**CITY OF LEAD**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2009**

	Governmental Activities	Business-type Activities	TOTAL
<b>ASSETS:</b>			
Cash and cash equivalents	\$385,228	\$64,307	\$449,535
Receivables	152,970	109,424	262,394
Internal balances	65,199	(65,199)	0
Inventories	23,045	0	23,045
Other assets	5,430	0	5,430
Restricted assets:			
Deposits	69,918	0	69,918
Capital assets:			
Land	2,854,203	0	2,854,203
Other capital assets, net of depreciation	872,957	4,871,367	5,744,324
<b>TOTAL ASSETS</b>	<b>\$4,428,950</b>	<b>\$4,979,899</b>	<b>\$9,408,849</b>
 <b>LIABILITIES:</b>			
Accounts payable	\$38,043	\$36,063	\$74,106
Other current liabilities	14,039	3,327	17,366
Noncurrent liabilities:			
Due within one year	192,268	90,954	283,222
Due in more than one year	227,758	698,207	925,965
<b>TOTAL LIABILITIES</b>	<b>472,108</b>	<b>828,551</b>	<b>1,300,659</b>
 <b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	3,361,277	4,105,300	7,466,577
Restricted for:			
Insurance	69,918	0	69,918
Cemetery-			
Expendable	41,692	0	41,692
Nonexpendable	50,000	0	50,000
Unrestricted	433,955	46,048	480,003
<b>TOTAL NET ASSETS</b>	<b>3,956,842</b>	<b>4,151,348</b>	<b>8,108,190</b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$4,428,950</b>	<b>\$4,979,899</b>	<b>\$9,408,849</b>

The accompanying notes to financial statements  
are an integral part of this statement.

**CITY OF LEAD**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants and Contributions
Governmental Activities:			
General government	\$444,173	\$18,378	\$0
Public safety	636,844	18,893	0
Public works	678,985	71,898	6,628
Health and welfare	78,957	1,550	0
Culture and recreation	340,120	6,080	108,740
Conservation and development	81,606	0	0
*Interest on long-term debt	19,478	0	0
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>2,280,163</b>	<b>116,799</b>	<b>115,368</b>
Business-type Activities:			
Water	685,936	707,749	0
Sewer	184,499	151,785	0
Sanitation	170,511	167,417	0
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,040,946</b>	<b>1,026,951</b>	<b>0</b>
<b>TOTAL</b>	<b>\$3,321,109</b>	<b>\$1,143,750</b>	<b>\$115,368</b>

\* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on long-term debt.

GENERAL REVENUES:  
 Property taxes  
 Sales taxes  
 State shared revenues  
 Unrestricted investment earnings  
 Other general revenues  
  
 Total General Revenues  
  
 Change in net assets  
  
 Net Assets-Beginning,  
  
 NET ASSETS-ending

The accompanying notes to financial statements are an  
 integral part of this statement.



NET (EXPENSE) REVENUE AND  
CHANGES IN NET ASSETS

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
\$0	(\$425,795)	\$0	(\$425,795)
0	(617,951)	0	(617,951)
0	(600,459)	0	(600,459)
0	(77,407)	0	(77,407)
0	(225,300)	0	(225,300)
0	(81,606)	0	(81,606)
0	(19,478)	0	(19,478)
0	(2,047,996)	0	(2,047,996)

246,078	0	267,891	267,891
243,795	0	211,081	211,081
0	0	(3,094)	(3,094)
489,873	0	475,878	475,878
<u>\$489,873</u>	<u>(\$2,047,996)</u>	<u>\$475,878</u>	<u>(\$1,572,118)</u>

1,043,923	0	1,043,923
690,277	0	690,277
146,581	0	146,581
1,507	331	1,838
81,016	0	81,016
<u>1,963,304</u>	<u>331</u>	<u>1,963,635</u>
(84,692)	476,209	391,517
<u>4,041,534</u>	<u>3,675,139</u>	<u>7,716,673</u>
<u>\$3,956,842</u>	<u>\$4,151,348</u>	<u>\$8,108,190</u>

**CITY OF LEAD**  
**BALANCE SHEET-GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2009**

	General Fund	Other Governmental Funds	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$227,770	\$157,458	\$385,228
Taxes receivable-			
Delinquent	57,800	0	57,800
Accounts receivable	3,125	0	3,125
Due from other funds	65,199	0	65,199
Due from other governments	84,526	7,519	92,045
Inventory of supplies	23,045	0	23,045
Deposits	69,918	0	69,918
<b>TOTAL ASSETS</b>	<b>\$531,383</b>	<b>\$164,977</b>	<b>\$696,360</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$36,617	\$1,426	\$38,043
Accrued wages	12,851	1,188	14,039
Deferred revenue	57,800	0	57,800
<b>Total Liabilities</b>	<b>107,268</b>	<b>2,614</b>	<b>109,882</b>
<b>FUND BALANCES:</b>			
Reserved for inventory	23,045	0	23,045
Reserved for deposits	69,918	0	69,918
Unreserved:			
Designated for capital accumulations	60,125	0	60,125
Designated for 2010 budget	229,108	0	229,108
Reported in Special Revenue Funds	0	44,932	44,932
Undesignated	41,919	0	41,919
Reported in Special revenue funds	0	25,739	25,739
Permanent fund	0	91,692	91,692
<b>Total Fund Balance</b>	<b>424,115</b>	<b>162,363</b>	<b>586,478</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$531,383</b>	<b>\$164,977</b>	<b>\$696,360</b>

The accompanying notes to financial statements are an  
integral part of this statement.

**CITY OF LEAD**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET**  
**ASSETS**  
**DECEMBER 31, 2009**

Total Fund Balances-Government Funds	\$586,478
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	3,727,160
Long-term liabilities, including bonds payable and accrued leave are not due and payable in the current period and therefore are not reported in the funds	(420,026)
Property taxes receivable are reported in the period to be financed by the property tax levy for both the governmental funds and the statement of net assets, but in the funds statement the amounts that are not "available" (within a 30 day period) are offset with deferred revenue	57,800
Deferred charges, such as unamortized bond issuance costs, are recorded as an asset in the statement of net assets, but are an expenditure in the funds statement	<u>5,430</u>
Net Assets-Governmental Funds	<u><u>\$3,956,842</u></u>

The accompanying notes to financial statement are an integral part of this statement.

**CITY OF LEAD**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$982,904	\$31,009	\$1,013,913
General sales taxes	636,052	54,225	690,277
Penalties and interest on taxes	4,796	0	4,796
Licenses and permits	72,385	0	72,385
Intergovernmental Revenue-			0
Federal grants	6,628	0	6,628
State shared revenues	165,440	0	165,440
County shared revenues	21,482	108,740	130,222
Charges for goods and services-			
General government	18,378	0	18,378
Public safety	8,521	0	8,521
Highways and streets	5,496	0	5,496
Sanitation	3,311	0	3,311
Health	1,550	0	1,550
Culture and recreation	6,080	0	6,080
Cemetery	20,475	2,275	22,750
Fines and Forfeits			0
Court fines and costs	1,749	0	1,749
Other	1,365	0	1,365
Miscellaneous Revenue			0
Interest earned	676	831	1,507
Rentals	7,258	0	7,258
Other	3,399	5,232	8,631
Total Revenue	<u>\$1,967,945</u>	<u>\$202,312</u>	<u>\$2,170,257</u>

The accompanying notes to financial statements are an  
integral part of this statement.

**CITY OF LEAD**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$90,436	\$0	\$90,436
Financial administration	185,796	0	185,796
Other	118,292	0	118,292
Public Safety			
Police	422,635	0	422,635
Fire	43,915	0	43,915
Public Works			
Highways and streets	622,798	0	622,798
Cemetery	37,786	2,147	39,933
Health and Welfare			
Health	70,343	0	70,343
Humane society	8,614	0	8,614
Culture and Recreation			
Recreation	121,225	0	121,225
Parks	83,262	0	83,262
Libraries	0	126,499	126,499
Historic preservation	7,586	0	7,586
Conservation and development:			
Economic opportunity	0	81,606	81,606
Debt service	135,620	31,009	166,629
Capital Outlay	115,819	0	115,819
Total Expenditures	2,064,127	241,261	2,305,388
Excess of Revenues Over (Under) Expenditures	(96,182)	(38,949)	(135,131)
Other Financing Sources:			
Long -term debt issued	110,619	0	110,619
Net Change in Fund Balances	14,437	(38,949)	(24,512)
FUND BALANCE, JANUARY 1, 2009	409,678	201,312	610,990
FUND BALANCE, DECEMBER 31, 2009	\$424,115	\$162,363	\$586,478

The accompanying notes to financial statements are an  
integral part of this statement.

**CITY OF LEAD**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

Net Changes in Fund Balances-Total Governmental Funds	(\$24,512)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

38,419

The funds statements do not reflect the loss of the book value of capital assets disposed during the year.

(153,266)

Bond issuance costs are an expenditure in the governmental funds, but are an asset in the Statement of Net Assets

(1,809)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

148,960

Property tax revenues are reported in the period to be financed by the property tax levy for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred revenue.

25,214

Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures

(7,079)

The issuance of long-term debt is an other financing source in the funds statements but an increase in long-term liabilities of the statement of activities.

(110,619)

Change in Net Assets of Governmental Activities

(\$84,692)

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF LEAD**  
**BALANCE SHEET - PROPRIETARY FUNDS**  
**DECEMBER 31, 2009**

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Sanitation Fund
<b>ASSETS:</b>			
Current Assets:			
Cash and cash equivalents	\$0	\$0	\$64,307
Accounts receivable	81,820	12,827	14,777
Total Current Assets	81,820	12,827	79,084
Capital Assets:			
Buildings	1,371,008	60,068	0
Improvements other than buildings	2,051,137	2,950,622	0
Machinery and equipment	43,050	0	0
Accumulated depreciation	(942,696)	(661,822)	0
Total Noncurrent Assets	2,522,499	2,348,868	0
<b>TOTAL ASSETS</b>	<b>\$2,604,319</b>	<b>\$2,361,695</b>	<b>\$79,084</b>

The accompanying notes to financial statements are an  
integral part of this statement.

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Total

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\$64,307

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109,424

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173,731

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1,431,076

5,001,759

43,050

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(1,604,518)

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4,871,367

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\$5,045,098

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**CITY OF LEAD**  
**BALANCE SHEET - PROPRIETARY FUNDS**  
**DECEMBER 31, 2009**

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Sanitation Fund
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$32,900	\$3,163	\$0
Due to general fund	24,484	40,715	0
Accrued wages	2,230	1,097	0
Bonds payable current:			
Revenue	25,541	53,866	0
Accrued leave-current	7,567	3,980	0
<b>Total Current Liabilities</b>	<b>92,722</b>	<b>102,821</b>	<b>0</b>
Non-current Liabilities:			
Bonds payable:			
Revenue	216,837	469,823	0
Accrued leave payable	7,567	3,980	0
<b>Total Non-current Liabilities</b>	<b>224,404</b>	<b>473,803</b>	<b>0</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,280,121	1,825,179	0
Unrestricted net assets	7,072	(40,108)	79,084
<b>Total Net Assets</b>	<b>2,287,193</b>	<b>1,785,071</b>	<b>79,084</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$2,604,319</b>	<b>\$2,361,695</b>	<b>\$79,084</b>

The accompanying notes to financial statements are an  
integral part of this statement.

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Total

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\$36,063

65,199

3,327

79,407

11,547

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195,543

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686,660

11,547

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698,207

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4,105,300

46,048

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4,151,348

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\$5,045,098

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**CITY OF LEAD**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Sanitation Fund
OPERATING REVENUES:			
Charges for goods and services	\$707,749	\$151,785	\$167,417
OPERATING EXPENSES:			
Personal services	141,469	57,744	0
Other current expense	177,032	51,326	170,511
Cost of goods sold	278,559	0	0
Depreciation	80,423	61,415	0
Total Operating Expenses	677,483	170,485	170,511
Operating Income (Loss)	30,266	(18,700)	(3,094)
Non-operating Revenue (Expense)			
Interest earned	220	23	88
Interest expense	(8,453)	(14,014)	0
Total Non-operating Revenue (Expense)	(8,233)	(13,991)	88
Income (loss) before Capital Contributions	22,033	(32,691)	(3,006)
Capital Contributions	246,078	243,795	0
Change in Net Assets	268,111	211,104	(3,006)
NET ASSETS, BEGINNING	2,019,082	1,573,967	82,090
NET ASSETS, ENDING	\$2,287,193	\$1,785,071	\$79,084

The accompanying notes to financial statements are an  
integral part of this statement.

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Total

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\$1,026,951

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199,213

398,869

278,559

141,838

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1,018,479

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8,472

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331

(22,467)

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(22,136)

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(13,664)

489,873

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476,209

3,675,139

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\$4,151,348

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**CITY OF LEAD**  
**STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Sanitation Fund
Cash Flows from Operating Activities:			
Receipts from customers	\$691,013	\$153,678	\$168,157
Payments to employees	(133,478)	(55,295)	(170,511)
Payments to suppliers	(480,580)	(79,091)	0
Net Cash Provided by Operating Activities	76,955	19,292	(2,354)
Cash Flow from Non Capital Financing Activities:			
Loans from general fund	24,484	40,715	0
Cash Flows from Capital and Related Financing Activities:			
Proceeds from capital debt	0	105,606	0
Capital contributions	246,078	243,795	0
Principal paid on capital debt	(24,738)	(48,998)	0
Interest paid on capital debt	(8,453)	(14,014)	0
Purchases of capital assets	(447,553)	(447,553)	0
Cash Flows from Investing Activities:			
Cash received from interest	220	23	88
Net Increase (Decrease) in Cash and Cash Equivalents	(133,007)	(101,134)	(2,266)
Cash and Cash Equivalents Beginning of Year	133,007	101,134	66,573
Cash and Cash Equivalents End of Year	\$0	\$0	\$64,307
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$30,266	(\$18,700)	(\$3,094)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	80,423	61,415	0
Changes in Assets and Liabilities:			
Receivables	(16,736)	1,893	740
Accounts payable	(24,989)	(27,765)	0
Accrued wages and leave	7,991	2,449	0
Net Cash Provided by Operating Activities	\$76,955	\$19,292	(\$2,354)

The accompanying notes to financial statements are an  
integral part of this statement.

---

Total

---

\$1,012,848  
(359,284)  
(559,671)  
93,893

65,199

105,606  
489,873  
(73,736)  
(22,467)  
(895,106)

---

331

(236,407)

---

300,714

---

\$64,307

\$8,472

141,838

(14,103)  
(52,754)  
10,440  
\$93,893

**CITY OF LEAD  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2009**

	Pension Trust Fund
	<hr/>
ASSETS	
Cash and cash equivalents	\$195,892
Investments	<hr/> 264,956
Total Assets	<hr/> <hr/> \$460,848
LIABILITIES	\$0
NET ASSETS	
Held in trust for	
Firemen's Pension	<hr/> 460,848
Total Liabilities and Net Assets	<hr/> <hr/> \$460,848

The accompanying notes to financial statements are an  
integral part of this statement.

**CITY OF LEAD**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Pension Trust Fund
	<u>                    </u>
ADDITIONS	
Interest	<u>\$6,113.00</u>
Total Additions	<u>6,113</u>
DEDUCTIONS	
Benefits	<u>14,551</u>
Total Deductions	<u>14,551</u>
Change in Net Assets	(8,438)
Net Assets - beginning	<u>469,286</u>
Net Assets - Ending	<u><u>\$460,848</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.



**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Lead consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

BASIS OF PRESENTATION

*Government-wide Statements:* The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole (the City). They include all funds of the reporting entity except fiduciary funds. The statements distinguish between the *governmental and business-type*. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities.

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

**Governmental Funds:**

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or major capital projects) that are legally restricted to expenditures for specified purposes.

**Entertainment Tax Fund** - to account for a 3<sup>rd</sup> cent sales tax on motel rooms, restaurants and bars which may only be used for the promotion of the City, land acquisition, civic centers and auditoriums and debt service related to these acquisitions (SDCL 10-52-8). This is not a major fund.

**Library fund** - to account for library revenues and related expenditures. This is not a major fund.

**Debt Service Funds** - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

**"TIF" No. 3 Fund** - to account for property taxes which may be used only for the payment of the TIF Revenue Note principal, interest and related costs. This is not a major fund.

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Permanent Funds:**

Permanent Funds - permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principle, may be used for purposes that support the City's programs - that is for the benefit of the City and its citizenry.

Cemetery Perpetual Care Fund - to account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery. (SDCL 9-32-18) This is not a major fund.

**Proprietary Funds:**

**Enterprise Funds** - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any Financial Accounting Standards Board (FASB) Statements and interpretation issued after November 30, 1989.

Water Fund - a fund used to record financial transactions related to water utility operations. This fund is financed by user charges and grants. This is a major fund.

Sewer Fund - a fund used to record financial transactions related to sewer operations. This fund is financed by user charges. This is a major fund.

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sanitation Fund - a fund used to record financial transactions related to garbage operations. This fund is financed by user charges. This is a major fund.

**Fiduciary Funds:**

Fiduciary funds consist of the following are never considered to be major funds:

Pension (and other employee benefit trust funds) -  
Pension and other employee benefit trust funds are used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, or other employee benefit plans. The City manages a Firemen's Pension Trust. See the detailed note number 11 for more information.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement Focus:**

*Government-wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

*Fund Financial Statements:*

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary funds.

**Basis of Accounting:**

*Government-wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

*Fund Financial Statements:*

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

period does not exceed one bill-paying cycle, and for the City of Lead, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2009 are sales tax, real estate taxes, state shared revenues and miscellaneous other revenues.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

*Government-wide Financial Statements:*

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statement have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as internal receivables and payables have been eliminated in

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Services Funds, so that expenses are reported only in the function to which they relate.

*Fund Financial Statements:*

Noncurrent portions of long-term interfund receivables (reported in "advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources".

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.



**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Statement*

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2009 balance of governmental activities capital assets includes approximately 50 percent for which the costs were determined by estimates of the original costs. The total December 31, 2009 balance of business-type capital assets includes about 50 percent for which the costs were determined by estimation of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalk, drainage systems and lighting systems acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements other than Buildings".

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All	-	-
Buildings	50,000	Straight-line	20-100 years
Improvements	25,000	Straight-line	15-50 years
Machinery and Equipment	5,000	Straight-line	4-20 years

Land, an inexhaustible capital asset, is not depreciated.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of general obligation bonds, revenue bonds payable and capital leases payable.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Cash Flows and Cash Equivalents:

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows.

1. Charges for services - These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities or investing activities are not reported as components of operating revenues or expenses.

j. Equity Classifications:

*Government-wide Statements:*

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fund Financial Statements:*

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity is reported as net assets held in trust for other purposes.

Application of Net Assets:

It is the City's policy to first use restricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letter of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

**CITY OF LEAD  
NOTES TO FINANCIAL STATEMENTS**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Investments - In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

**Credit Risk** - State law limits investments for the City, as discussed above. The City has no investment policy that would further limit investment choices.

The investments held at December 31, 2009 were as follows:

	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value</u>
Mutual Funds:			
U. S. Government			
Security Funds	Unrated	N/A	\$ 264,956
TOTAL INVESTMENTS			<u>\$ 264,956</u>

**Custodial Credit Risk - Deposits** - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2009, none of the City deposits in financial institutions were exposed to custodial credit risk.

**Custodial Credit Risk - Investments** - The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

**Concentration of Credit Risk** - The City places no limit on the amount that may be invested in any one issuer. 100 percent of the City's investments are in a mutual fund.

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

**Interest Rate Risk** - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Assignment of Investment Income** - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

3. DEFERRED REVENUE

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but which revenue recognition criteria have not been met.

4. INVENTORY

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

*Government-wide Financial Statements:*

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

4. INVENTORY (continued)

*Fund Financial Statements:*

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories are off-set by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2009 follows:

	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
<b>Governmental Activities:</b>				
Capital Assets				
Not being				
Depreciated				
Land	\$2,854,203	\$ -	\$ -	\$2,854,203
Capital Assets				
Being Depreciated				
Buildings	337,230	-	-	337,230
Improvements	710,680	-	-	710,680
Equipment	1,064,668	115,819	393,555	786,932
Totals	2,112,578	115,819	393,555	1,834,842
Less accumulated				
Depreciation for:				
Building	139,057	8,800	-	146,857
Improvements	256,572	22,735	-	279,307
Equipment	729,145	46,865	240,289	535,721
Total	1,124,774	77,400	240,289	961,885



**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

5. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
Total Capital Assets being Depreciated- Net	\$ 987,804	\$ 38,419	\$ 153,266	\$ 872,957
Governmental Activity Capital Assets Net	<u>\$3,842,007</u>	<u>\$ 38,419</u>	<u>\$ 153,266</u>	<u>\$3,727,160</u>

Depreciation expense was charged to functions as follows:

General Government	\$ 42,570
Public Safety	17,028
Public Works	16,254
Culture and Recreation	1,548
	<u>\$ 77,400</u>

	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
<b>Business-type Activities:</b>				
Capital Assets Not Being Depreciated Construction in progress	\$1,104,894	\$ 895,106	\$ 2,000,000	\$ -
Capital Assets Being Depreciated				
Buildings	\$1,431,076	\$ -	\$ -	\$1,431,076
Improvements	3,001,759	2,000,000	-	5,001,759
Equipment	43,050	-	-	43,050
Totals	<u>4,475,885</u>	<u>2,000,000</u>	<u>-</u>	<u>6,475,885</u>

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

5. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
Less accumulated				
Depreciation for:				
Building	\$ 630,481	\$ 37,803	\$ -	\$ 668,284
Improvements	805,149	100,035	-	905,184
Equipment	27,050	4,000	-	31,050
Total	<u>1,462,680</u>	<u>141,838</u>	<u>-</u>	<u>1,604,518</u>
Total Capital Assets being depreciated, net	<u>3,013,205</u>	<u>1,858,162</u>	<u>\$ -</u>	<u>\$4,871,367</u>
Business-type Activity Capital Assets Net	<u>\$4,118,099</u>	<u>\$2,753,268</u>	<u>\$ 2,000,000</u>	<u>\$4,871,367</u>

Depreciation expense was charged to functions as follows:

Water	\$ 80,423
Sewer	<u>61,415</u>
	<u>\$141,838</u>

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

6. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>General Obligation</u>	<u>Capital (Financing) Lease</u>	<u>Tax Increment Bonds</u>	<u>Compen- sated Absences</u>	<u>Totals</u>
Governmental Activities:					
Debt Payable, January 1, 2009 \$	\$200,000	\$135,373	\$ 68,851	\$ 47,064	\$ 451,288
Increases	-	110,619	-	30,611	141,230
Decreases	<u>(100,000)</u>	<u>(23,981)</u>	<u>(24,979)</u>	<u>(23,532)</u>	<u>(172,492)</u>
Debt payable, December 31, 2009	<u>\$100,000</u>	<u>\$ 222,011</u>	<u>\$ 43,872</u>	<u>\$ 54,143</u>	<u>\$ 420,026</u>
Due within One Year	<u>\$100,000</u>	<u>\$ 37,174</u>	<u>\$ 28,022</u>	<u>\$ 27,072</u>	<u>\$ 192,268</u>

	<u>Revenue</u>	<u>Compensated Absences</u>	<u>Total</u>
Business-type Activities:			
Debt Payable, January 1, 2009	\$734,197	\$ 13,708	\$ 747,905
Increases	105,606	12,813	118,419
Decreases	<u>(73,736)</u>	<u>(3,427)</u>	<u>(77,163)</u>
Debt payable, December 31, 2009	<u>\$766,067</u>	<u>\$ 23,094</u>	<u>\$ 789,161</u>
Due within One Year	<u>\$ 79,407</u>	<u>\$ 11,547</u>	<u>\$ 90,954</u>

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

6. LONG-TERM DEBT (continued)

Debt payable at December 31, 2009 is comprised of the following:

Governmental Activities:

General Obligation Refunding Bonds -	
Series 2003, Interest rate of 2.75-3.75%,	
maturing January, 2011. Retired by the	
General Fund	<u>\$ 100,000</u>

Financing (Capital Acquisition) Leases:

Caterpillar Financial Services, interest rate	
Of 4.50%, maturing January, 2013, paid by the	
General Fund	<u>122,549</u>

The purchase price at the commencement of the financing (capital acquisition) leases was:

Principal	\$ 176,931
Interest	<u>30,605</u>
Total	<u><u>\$ 207,536</u></u>

Wells Fargo Public Finance, interest rate	
of 4.43%, maturing on May, 2014, paid	
by the General Fund	<u>99,462</u>

The purchase price at the commencement of the financing (capital acquisition) leases was:

Principal	\$ 110,619
Interest	<u>13,304</u>
Total	<u><u>\$ 123,923</u></u>

Total leases	<u>\$ 222,011</u>
--------------	-------------------

Tax Increment Financing Debt:

TIF #3 Revenue Note, interest rate of	
11.585%, maturing June 17, 2011, paid	
by the Tax Increment District #3 Fund	<u>43,872</u>

Accrued leave, payable by the General Fund	<u>\$ 54,143</u>
--	------------------

Total Governmental Activities	<u><u>\$ 420,026</u></u>
-------------------------------	--------------------------

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

6. LONG-TERM DEBT (continued)

Business-type Activities:

Revenue Bonds:

1990 State Revolving Fund, interest rate of 3%, maturing August 1, 2011, paid by the Sewer Fund	\$ 19,160
2002 State Revolving Fund, interest rate of 4.5%, maturing October 1, 2012, paid by the Water Fund	67,136
2002 State Revolving Fund, interest rate of 4.5%, maturing October 1, 2012, paid by the Sewer Fund	83,293
2005 State Revolving Fund, interest rate of 3.25%, maturing October 1, 2035, paid by the Water Fund	175,242
2005 State Revolving Fund, interest rate of 3.25%, maturing October 1, 2025, paid by the Sewer Fund	184,390
2007 State Revolving Fund, interest rate of 3.25%, maturing July 1, 2029, paid by the Sewer Fund.	<u>236,846</u>
Total Revenue Bonds	<u>766,067</u>
Accrued leave, payable by the Water and Sewer Funds.	<u>23,094</u>
Total Business-type Activities	<u>\$ 789,161</u>

The annual requirements to amortize all debt outstanding as of December 31, 2009, excluding compensated absences, is as follows:

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

6. LONG-TERM DEBT (continued)

Annual Requirements to Amortize Long-term Debt  
December 31, 2009

Governmental Activities:

Year Ending December 31,	General Obligation		Capital (Financing) Leases	
	Principal	Interest	Principal	Interest
2010	\$100,000	\$ 3,750	\$ 37,174	\$ 9,080
2011	-	-	39,745	6,508
2012	-	-	38,250	3,980
2013	-	-	97,080	2,663
2014	-	-	9,762	216
Total	<u>\$100,000</u>	<u>\$ 3,750</u>	<u>\$222,011</u>	<u>\$22,447</u>

Year Ending December 31,	Tax Increment Bonds		Total	
	Principal	Interest	Principal	Interest
2010	\$ 28,022	\$ 4,347	\$ 165,196	\$ 17,177
2011	15,850	898	55,595	7,406
2012	-	-	38,250	3,980
2013	-	-	97,080	2,663
2014	-	-	9,762	216
Total	<u>\$ 43,872</u>	<u>\$ 5,245</u>	<u>\$ 365,883</u>	<u>\$ 31,442</u>

Business-type Activities:

Year Ending December 31,	Revenue	
	Principal	Interest
2010	\$ 79,407	\$ 24,296
2011	79,707	22,989
2012	77,207	19,873
2013	24,495	17,028
2014	25,301	16,222
2015-2019	139,549	68,064
2020-2024	164,064	43,549
2025-2029	122,719	18,527
2030-2034	44,833	5,526
2035-2039	8,785	202
Total	<u>\$766,067</u>	<u>\$236,276</u>

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

7. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During the year ended December 31, 2009 the City managed its risk as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial carrier. The policy carries a \$500 deductible.

Employee Dental Insurance:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for dental benefits.

The coverage provides a deductible of \$25 per person each calendar year. The coverage provides a \$1,500 maximum benefit each calendar year.

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Claims payable, beginning of year	\$ 625	\$ 4,156	\$ -
Claims incurred during the year	26,410	13,794	15,458
Claims paid during the year	<u>(22,879)</u>	<u>(17,950)</u>	<u>(15,458)</u>
Claims payable, end of year	<u>\$ 4,156</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

8. RISK MANAGEMENT (continued)

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensations coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute.

The Pool pays the first \$325,000 of any claim per individual. The Pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Liability:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction



**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

8. RISK MANAGEMENT (continued)

information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for automobiles and general liability. The agreement with the SDPAA Provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of the City's first full year	50%
End of the City's second full year	60%
End of the City's third full year	70%
End of the City's fourth full year	80%
End of the City's fifth full year	90%
End of the City's sixth full year and thereafter	100%

As of December 31, 2009, the City has vested balance in the cumulative reserve fund of \$69,918.

The City carries a \$1,000 deductible for the automotive coverage and \$1,000 deductible for the general liability coverage.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

8. RISK MANAGEMENT (continued)

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended December 31, 2009 no claims for unemployment benefits were incurred. At December 31, 2009, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Claims payable, beginning of year	\$ -	\$ -	\$ -
Claims incurred during the year	-	-	4,563
Claims paid during the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,563)</u>
Claims payable, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

9. RETIREMENT PLAN

All employees, except firemen, part-time or seasonal, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P. O. Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

General employees are required by state statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%. State statute

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

9. RETIREMENT PLAN (continued)

also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2009, 2008 and 2007 were \$52,264, \$51,858 and \$45,257 respectively, equal to the required contribution.

10. FIREMEN'S PENSION

Plan Description:

The City of Lead also sponsors and administers the Firemen Pension Fund (the plan). This is a single-employer; defined benefit pension plan established under the authority of SDCL 9-16-20 and 9-16-3. The membership of the plan includes all full-time firemen in the employ of the City. A firemen's pension board of five members is in charge of the administration, management and operation of the plan. The plan is supposed to be reviewed biennially by an actuary firm. The City Commission established and can make changes to the plan through ordinances of the City of Lead.

The system is a defined benefit pension plan. Pursuant to City ordinances, the members contribute 6 percent of compensation. Members' contributions earn interest at 6 percent. Members' contributions and earned interest may be withdrawn upon termination of employment. The plan is considered to be part of the City of Lead and is included in the City of Lead financial reports as a Pension Trust Fund. Contributions are made in accordance with the recommendations of the actuary. The City's contributions for the years ended December 31, 2009, 2008 and 2007 were \$0, \$0, and \$0, respectively.

The plan consisted of the following members at December 31, 2009:

Retirees and beneficiaries currently receiving  
Benefits

2

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

10. FIREMEN'S PENSION (continued)

Retirement with no reduction for early retirement occurs at 20 years of service or at the age of 60 regardless of service. Benefits commence at age 55 with the completion of 10 years of service.

Deferred retirement is computed as a regular retirement benefit but based on service and final average compensation at the time of termination. Eligibility for deferred retirement occurs after 10 years of service or at age 60 regardless of service. Benefits from deferred retirement commence at age 55 with the completion of 10 years of service.

The standard benefit upon retirement is equal to 2.75 percent times the first 25 years of service, plus 1.5 percent times years of service in excess of 25 years. Maximum benefits are 75 percent of earnings of a first-class fireman during the year of retirement.

Final average compensation means the five consecutive years preceding retirement.

**FIREMEN'S PENSION FUND**  
**SCHEDULE OF FUNDING PROGRESS**

<u>Valuation Date December 31,</u>	<u>Actuarial Asset Value</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>
1986	\$174,753	\$135,761	\$ (38,992)	128.7%
1988	206,706	146,057	(60,649)	141.5%
1989	226,898	152,254	(74,644)	149.0%
1991	272,088	177,133	(94,955)	153.6%
1993	320,945	227,183	(93,762)	141.3%
1995	375,915	273,263	(102,652)	137.6%
1997	430,447	383,124	(47,323)	112.4%
1999	464,708	419,354	(45,354)	110.8%
2001	414,767	344,979	(69,788)	120.2%
2003	431,868	360,712	(71,156)	119.7%

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

10. FIREMEN'S PENSION (continued)

FIREMEN'S PENSION FUND  
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

<u>Fiscal Year</u> <u>Ended</u> <u>December 31,</u>	<u>Required</u>	<u>Employer</u> <u>Actual</u>	<u>County</u>	<u>Percentage of</u> <u>ARC Contributed</u>
1991	\$6,155	\$6,155	\$ -	100%
1992	7,696	7,696	-	100%
1993	7,094	7,094	-	100%
1994	6,563	6,563	-	100%
1995	\$6,860	\$6,860	\$ -	100%
1996	7,055	7,055	-	100%
1997	7,856	7,856	-	100%
1998	8,133	8,133	-	100%
1999	8,104	8,104	-	100%
2000	5,217	5,217	7,453	100%
2001	4,632	4,632	8,708	100%
2002	3,542	3,542	9,232	100%
2003	3,473	3,473	9,982	100%
2004	-	-	10,004	100%
2005	855	855	10,457	100%
2006	1,941	1,941	18,237	100%
2007	-	-	12,882	100%
2008	-	-	15,052	100%
2009	-	-	-	100%

Summary of Actuarial Methods and Assumptions

Valuation date: December 31, 2003

Amortization method: Level percent of payroll,  
Period - 15 years

Asset valuation method: Market value of assets

Actuarial assumptions:

Investment rate of return 6.0% per compounded annually

Projected salary increases 4.5% to 7.5% per year

Post retirement:

Cost-of-living adjustments None

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

10. FIREMEN'S PENSION (continued)

The above is the most current available information as of June 18, 2010.

The City no longer maintains a Fire Department because of the formation of the "Lead Fire District".

11. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes on the Statement of Net Assets:

<u>Restriction</u>	<u>Restricted by</u>	<u>Amount</u>
Cemetery	Law	\$ 91,692
Insurance	Insurance Company	69,918
		<u>\$161,610</u>

12. INTERFUND BALANCES

Since all funds of the City share the same checking account, overdrafts of individual funds are classified as "loans" from the General Fund. As of December 31, 2009, the following funds were in a cash overdraft position:

Water Fund	\$ 24,484
Sewer Fund	40,715
	<u>\$ 65,199</u>

The City is not legally authorized to "loan" money to other funds, but it is authorized to "transfer" money between funds. The above "loans" represent legal transfers that are classified as loans because it is the City's intent that they be repaid as soon as possible.

13. PLEDGED REVENUES

The City has pledged future water customer's revenues, net of specified operation expenses, to repay \$242,378 in water system revenue bonds issued in 2002 and 2005. Proceeds from the bonds provided financing for the construction of water system infrastructure.

**CITY OF LEAD**  
**NOTES TO FINANCIAL STATEMENTS**

13. PLEDGED REVENUES (continued)

The bonds are payable solely from water customer net revenues and are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 70% of net revenues. The total principal and interest remaining to be paid on the bonds is \$333,675. Principal and interest paid for the current year and total customer net revenue were \$33,191 and \$110,689, respectively.

The City has also pledged future sewer customers' revenues, net of specified operating expenses to repay \$523,689 in sewer system revenue bonds issued in 1990, 2002, 2005 and 2007. Proceeds from the bonds provided financing for the construction of sewer improvements.

The bonds are payable solely from sewer customer net revenues and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 75% of net revenues. The total principal and interest remaining to be paid on the bond is \$668,668. Principal and interest was paid for the current year and total customer net revenues were \$63,012 and \$42,715, respectively.

**CITY OF LEAD**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Budgetary Basis)**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
<b>REVENUES</b>			
<b>Taxes:</b>			
General property taxes	\$1,039,693	\$1,039,693	\$982,904
General sales and use taxes	567,816	577,916	636,052
Penalties and interest	4,000	4,000	4,796
 Licenses and Permits	 48,400	 54,400	 72,385
 Intergovernmental Revenue			
Federal grants	137,878	137,878	6,628
State shared revenue	148,000	148,000	165,440
County shared revenue	4,500	4,500	21,482
 Charges for Goods and Services			
General government	5,450	5,450	18,378
Public safety	10,700	10,700	8,521
Highways and streets	400	400	5,496
Sanitation	3,500	3,500	3,311
Health	7,463	7,463	1,550
Culture and recreation	2,650	2,650	6,080
Cemetery	28,000	28,000	20,475
 Fines and Forfeits			
Court fines and costs	3,500	3,500	1,749
Other	500	500	1,365
 Miscellaneous Revenue			
Investment earnings	8,500	8,500	676
Rentals	7,250	7,250	7,258
Contributions from private sources	17,800	17,800	0
Other	0	0	3,399
 Total Revenue	 \$2,046,000	 \$2,062,100	 \$1,967,945

The accompanying notes to required supplemental information  
are an integral part of this schedule.



Variance with  
Final Budget-  
Positive  
(Negative)

---

(\$56,789)

58,136

796

17,985

(131,250)

17,440

16,982

12,928

(2,179)

5,096

(189)

(5,913)

3,430

(7,525)

(1,751)

865

(7,824)

8

(17,800)

3,399

---

(\$94,155)

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**CITY OF LEAD**  
**BUDGETARY COMPARISON SCHEDULE-GENERAL FUND (Budgetary Basis)**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

EXPENDITURES	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
General Government			
Legislative	\$91,140	\$91,140	\$90,436
Contingencies	50,000	50,000	0
Financial administration	192,827	192,827	185,796
Other	119,954	119,954	118,292
Public Safety			
Police	423,322	423,322	422,635
Fire	132,628	135,628	43,915
Public Works			
Highways and streets	674,968	785,587	738,617
Cemeteries	51,233	51,233	37,786
Health and Welfare			
Health	64,756	70,756	70,343
Humane society	13,925	13,925	8,614
Culture and Recreation			
Recreation	120,000	121,300	121,225
Parks	88,280	88,280	83,262
Historical preservation	3,750	7,750	7,586
Debt Service	134,775	136,575	135,620
Total Expenditures	<u>2,161,558</u>	<u>2,288,277</u>	<u>2,064,127</u>
Excess of Revenue over (under)			
Expenditures	(115,558)	(226,177)	(96,182)
Other Financing Sources (Uses):			
Proceeds of long-term debt	<u>0</u>	<u>110,619</u>	<u>110,619</u>
Net Change in Fund Balance	(115,558)	(115,558)	14,437
FUND BALANCE-Beginning	<u>409,678</u>	<u>409,678</u>	<u>409,678</u>
FUND BALANCE-Ending	<u>\$294,120</u>	<u>\$294,120</u>	<u>\$424,115</u>

The accompanying notes to supplemental information  
are an integral part of this schedule.

Variance with Final Budget- Positive (Negative)
\$704
50,000
7,031
1,662
687
91,713
46,970
13,447
413
5,311
75
5,018
164
955
224,150
129,995
0
129,995
0
\$129,995

**CITY OF LEAD**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting practices (GAAP).
8. The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate.

**CITY OF LEAD**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**

**FINDING NUMBER 2009-01:**

**CONDITION FOUND:**

A lack of proper segregation of duties is the present situation in the City's accounting department.

**CRITERIA:**

Duties should be segregated so the same employees who handle cash do not record cash transactions nor have general ledger access. Bank reconciliation should be performed by personnel not involved with the check writing process. Other financial and accounting functions should be done by separate people.

**CAUSE AND EFFECT:**

Management of the City has determined the present size of the staff in the Finance Department. The effect of this decision precludes an adequate segregation of duties.

**RECOMMENDATION:**

The Mayor and Council Members should always be aware of this weakness as they review and approve transactions of the City and resulting financial reports. Compensating controls should be implemented whenever and wherever possible.

**CITY RESPONSE:**

The City agrees with this finding, but believes that the cost of hiring additional staff to segregate the duties exceeds the benefits to be derived from such action. Management intends to maintain a constant awareness of this weakness and will study each person's duties to ascertain where mitigating controls may be implemented.

**FINDING NUMBER 2009-02:**

**CONDITION FOUND:**

The City failed to comply with South Dakota Codified law (SDCL) in regards to its fiduciary requirements for maintaining the Firemen's Pension Plan.

**CRITERIA:**

SDCL 9-16-5.3 requires an annual report containing financial statements and an actuarial valuation to be filed with the Retirement Laws Committee. This report was not filed for the years ending December 31, 2009, 2008, 2007 or 2006.

**CITY OF LEAD  
SCHEDULE OF CURRENT AUDIT FINDINGS**

**FINDING NUMBER 2009-02 (continued):**

SDCL 9-16-5.4 required the above report to be audited by a qualified certified public accountant and it should include data accumulated by an approved actuary as defined by SDCL 3-12-47.7. This requirement has not been met in recent years, if ever.

**CONDITION, CAUSE AND EFFECT:**

The City officials inadvertently failed to comply with the requirements of maintaining SDCL compliance regarding the Firemen's Pension Plan. The effect of the oversight was a violation of SDCL.

**RECOMMENDATION:**

City officials should comply with the audit and actuarial reporting requirements of SDCL's concerning the Firemen's Pension Plan.

**CITY RESPONSE:**

Management agrees with this finding and is in the process of implementing the recommendation.

**FINDING NUMBER 2009-03**

**CONDITION FOUND:**

Fixed asset records were inadequate.

**CRITERIA:**

Fixed asset records should include comprehensive lists of all land, buildings, improvements and equipment that have a cost greater than the City's capitalization policy. The City's lists of such assets were found to be incomplete and lacking in supporting documentation.

**CAUSE AND EFFECT:**

The records have not been properly maintained resulting in diminished control and possible inaccurate reporting.

**RECOMMENDATION:**

The City should conduct a comprehensive physical inventory of all fixed assets and update the subsidiary records accordingly. Costs (or estimated costs) of the assets should be properly documented.

**CITY RESPONSE:**

The City agrees with the finding and intends to comply with the recommendations as soon as possible.

**CITY OF LEAD  
SCHEDULE OF PRIOR AUDIT FINDINGS**

**FINDING NUMBER 2008-01 and 2007-01:**

A lack of proper segregation of duties is the present situation in the City's accounting department.

This finding was first reported in 1998.

**CURRENT STATUS:**

The condition remains the same as of December 31, 2009.

**FINDING NUMBER 2008-02 and 2007-02**

Governmental fund budgets were overspent by material amounts, in violation of South Dakota budgetary laws.

**CURRENT STATUS:**

No budget overdrafts occurred in 2009.

**FINDING NUMBER 2008-03 and 2007-03:**

The City failed to comply with SDCL in regards to maintaining the Firemen's Pension Fund.

**CURRENT STATUS:**

The condition remains the same as of December 31, 2009.

**FINDING NUMBER 2008-04 and 2007-04:**

Fixed asset records were inadequate.

**CURRENT STATUS:**

The condition remains the same as of December 31, 2009.